

Message Text

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ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 PA-01 PRS-01 USIA-06

FEA-01 ERDA-05 CEA-01 DODE-00 FPC-01 H-02 INT-05 L-02

NSC-05 PM-03 SAM-01 OES-03 SS-15 STR-04 /115 W

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R 181046Z APR 75

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 9615

INFO AMEMBASSY SINGAPORE

AMEMBASSY LONDON

C O N F I D E N T I A L KUALA LUMPUR 2105

C O R R E C T E D C O P Y (ADDITION OF INFO ADDEES)

E.O. 11652: GDS

TAGS: ENRG MY

SUBJ: AMENDMENT TO MALAYSIAN PETROLEUM LAW

REF: STATE 088102; 86477

1. MALAYSIAN SENATE PASSED AMENDMENT TO PETROLEUM LAW YESTERDAY AS EXPECTED. NEXT STOP WILL BE SIGNING BY KING AND GAZETTING BY PRIME MINISTER WHICH AS WE HAVE REPORTED WILL PROBABLY TAKE PLACE ON APRIL 29. BRITISH AND AMERICAN OIL COMPANY EXECUTIVES CLING TO FAINT HOPE THAT WHEN FACED BY INDUSTRY AND INTERNATIONAL REACTION, PM RAZAK WILL NOT SIGN OIL BILL. I AM CONVINCED THAT THIS IS UNREALISTIC AND THAT AMENDMENT WILL INDEED SHORTLY BECOME LAW. THE BEST THAT CAN BE HOPED IS THAT RAZAK WILL PROCEED SLOWLY IN IMPLEMENTATION.

2. FROM DEVELOPMENTS DURING THE PAST WEEK, IT HAS
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EMERGED QUITE CLEARLY THAT THE AMENDMENT TO THE PETROLEUM

LAW IS WHAT IT APPEARS TO BE; A MECHANISM TO TAKE OVER CONTROL OF PETROLEUM DISTRIBUTION WITHOUT OPEN NATIONALIZATION. GOVERNMENT SPONSORS OF THE LEGISLATION HAVE SAID SOMEWHAT DISINGENUOUSLY THAT THEY DON'T HAVE THE FUNDS TO NATIONALIZE AND HAVE RESORTED TO THE MANAGEMENT-SHARE GIMMICK TO ACHIEVE THEIR OBJECTIVE.

3. IT WAS ALSO EVIDENT THAT THIS WAS A POLITICAL, NOT AN ECONOMIC ACT. THE GOM'S CADRE OF HIGHLY QUALIFIED ECONOMISTS, BANKERS, FINANCIAL AND TRADE EXPERTS WERE BY-PASSED COMPLETELY. WITH THE UMNO CONVENTION IN THE OFFING, ABDULLAH AND RAZALEIGH MAY HAVE SOUGHT A DRAMATIC DEMONSTRATION TO THE MALAY RANK AND FILE OF THE GOVERNMENT'S READINESS TO FURTHER BUMIPUTRA INTERESTS, AND FOREIGN OIL COMPANIES MAKE AN ATTRACTIVE TARGET.

4. IT IS UNLIKELY THAT THE GOM IS AWARE OF U.S. LEGISLATION RELATING TO NATIONALIZATION. MALAYSIA SINCE INDEPENDENCE HAS BEEN STRONGLY PRIVATE ENTERPRISE ORIENTED AND THERE HAVE BEEN NO PREVIOUS CASES OF NATIONALIZATION OF U.S. INTERESTS. THE ABSENCE OF ANY AID RELATIONSHIP MAKES IT UNLIKELY MALAYSIA IS AWARE OF HICKENLOOPER AND GONZALES AMENDMENT. WITH RECENT PASSAGE OF THE TRADE ACT AND CAREFUL REVIEW OF ITS PROVISIONS, IT IS LIKELY THAT PROFESSIONAL LEVEL IN MINISTRY OF PRIMARY INDUSTRIES AND MINISTRY OF TRADE AND INDUSTRY ARE AWARE OF DENIAL OF GSP IN CERTAIN CASES OF NATIONALIZATION.

5. WE WILL INFORM GOM OFFICIALS AND REPRESENTATIVES OF U.S. FIRMS OF POSSIBLE OPERATION OF U.S. LAW IN THIS CASE. THERE IS A POINT HOWEVER, QUICKLY REACHED, WHERE ADMONITION OR WARNING PRODUCES ONLY IRRITATION AND HARDENING OF ATTITUDE. RATHER THAN FURTHER TALK THERE MUST BE A CLEAR DEMONSTRATION IN SUSPENDED PROJECTS, NEGOTIATIONS INTERRUPTED, AND BUSINESSMEN TURNING AWAY TO BRING HOME THE FOOLISHNESS OF THIS POLITICAL ACT. A NUMBER OF ECONOMICALLY SOPHISTICATED PEOPLE HERE UNDERSTAND THE DANGERS OF NATIONALISTIC GRANDSTANDING. FORMER FINANCE MINISTER TAN SIEW SIN TOLD ME THIS PAST WEEK THAT THIS ACT COULD DESTROY AN INVESTMENT CLIMATE

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BUILT UP CAREFULLY IN THE 18 YEARS SINCE INDEPENDENCE. DEPUTY GOVERNOR OF THE NATIONAL BANK EXPRESSED TO ME ALMOST IDENTICAL THOUGHT. WE SHOULD LET THE VIEWS OF THIS CONSTITUENCY BE FELT AND AVOID GIVING THE POLITICAL EXTREMISTS AMMUNITION BY MAKING IT APPEAR THAT BIG OIL COMPANIES AND THE BIG POWERS ARE GANGING UP ON PLUCKY LITTLE MALAYSIA'S EFFORT TO CONTROL ITS PETRO-CHEMICAL DESTINY.

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Message Attributes

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Disposition Authority: KelleyW0
Disposition Case Number: n/a
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Disposition Date: 28 MAY 2004
Disposition Event:
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